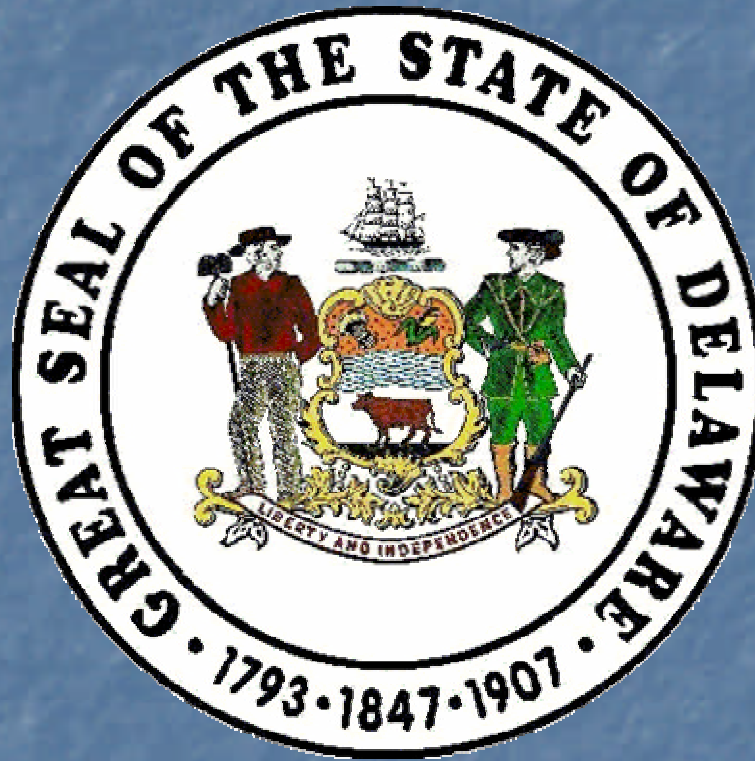


State of Delaware

Office of the Governor



Office of the Budget

Released 1/30/03

Financial Overview

Fiscal Year 2004

Economic Context

FY 1993 - FY 2001

- Delaware employment grows at an annual rate of 2.5%.
- Delaware personal income grows at an annual rate of 5.7%.
- S&P 500 grows at an annual rate of 15.2%.
- Real U.S. consumer expenditures grow at an annual rate of 3.8%.

FY 2002 - FY 2003 (est)

- Delaware employment **falls** at an annual rate of 1.0%.
- Delaware personal income grows at an annual rate of 3.7%.
- S&P 500 **falls** at an annual rate of 17.2%.
- Real U.S. consumer expenditures grow at an annual rate of 2.7%.

Fiscal History

FY 1993 - FY 2001

- General Fund Operating budget grows at 7.1% annually.
- General Fund cash to the bond bill averages \$114 million each year .
- Debt reduction initiatives in excess of \$150 million.
- Personal Income Tax cut four times for a total reduction of about 25%.

FY 2002 - FY 2003

- General Fund Operating budget grows 4.7% annually.
- General Fund cash to the bond bill averages \$15 million.
- No debt reduction initiatives.
- No across the board tax cuts.
- Significant budget cuts

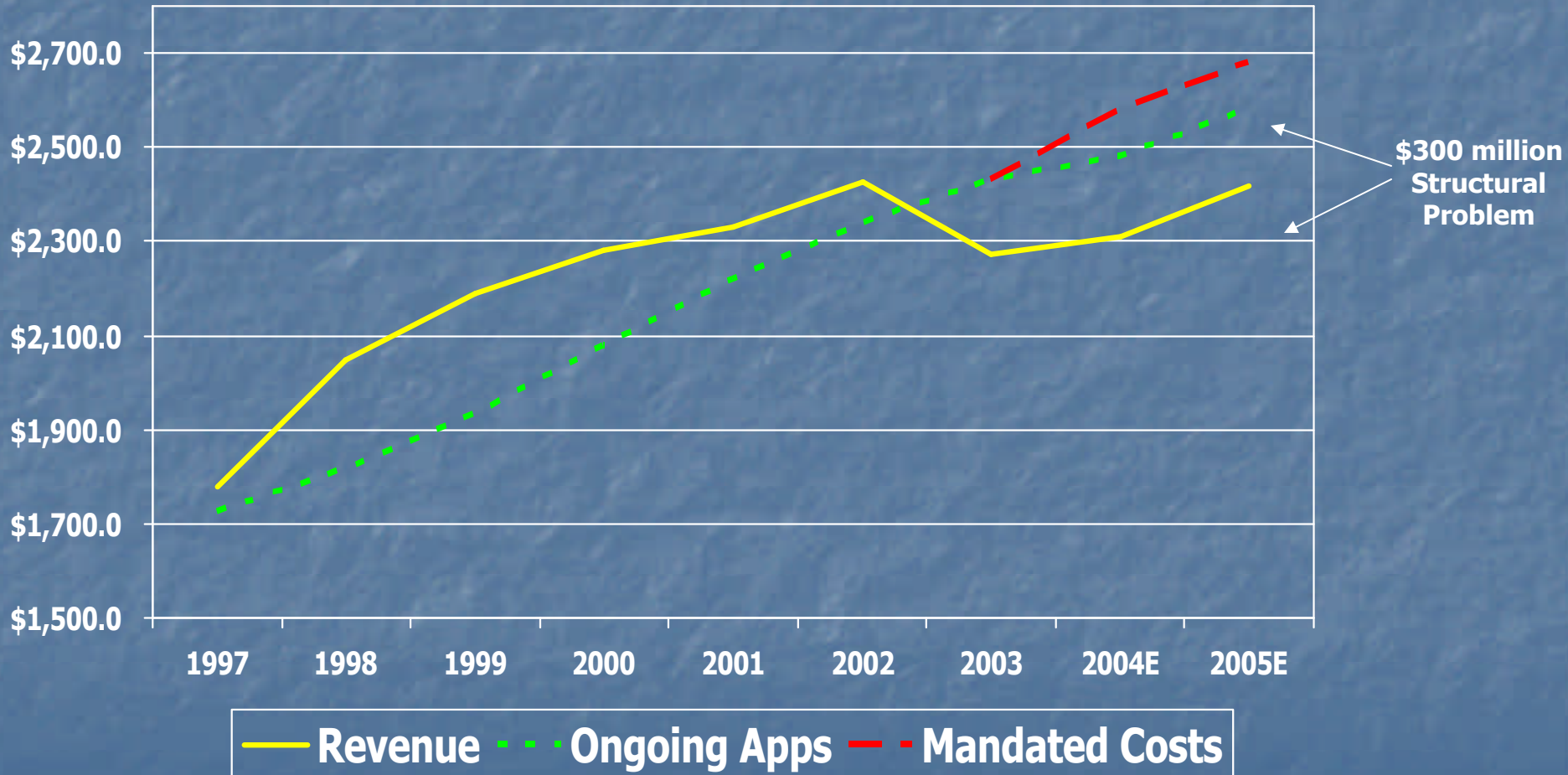
Budget Cost Containment since CY 2001

- Jan. 2001 – Governor orders agencies to cut \$35 million in FY 2001 Budget
- May 2001 – Governor submits FY 2002 proposals including \$47.9 million in operating budget cuts and \$63.7 million in capital project cuts
- Dec. 2001 – Governor orders agencies to make \$21 million in cuts to FY 2002 budget
- March 2002 – Governor institutes hiring freeze for the duration of FY 2002 budget

Budget Cost Containment since CY 2001 (cont'd)

- Fall 2002 – Governor identifies \$60 million to close projected \$95 million shortfall in FY 2003 budget
- Jan. 30, 2003 – Governor submits austere FY 2004 budget including additional reductions to the operating budget

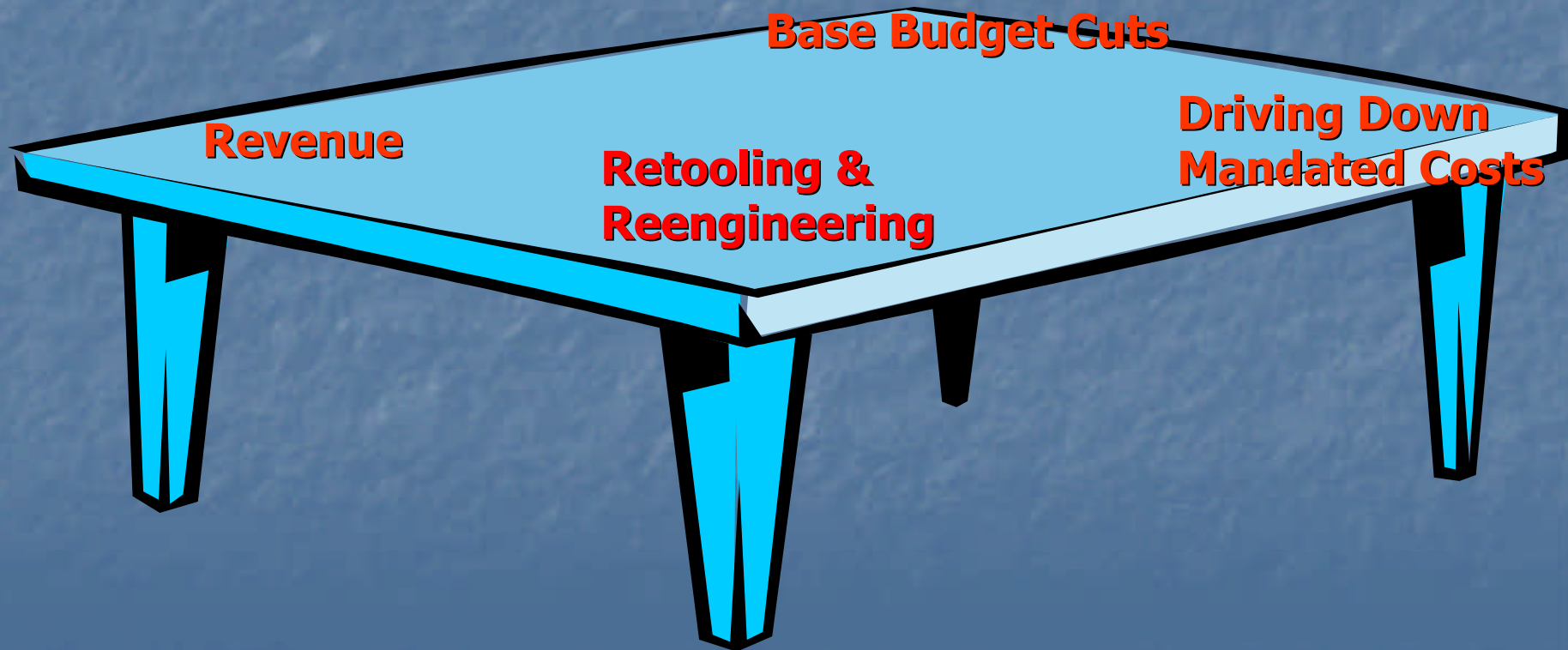
Revenues vs. Ongoing Appropriations



Governor's Financial Principles

- Cut discretionary funds and non-essential state services
- Preserve essential state services:
 - Education
 - Economic Development
 - Public safety
 - Health care
 - Children's services
- Avoid one-time fixes
- Maintain reserves
- Align ongoing revenues to ongoing expenditures

Closing the Structural Deficit: All Options are on the Table



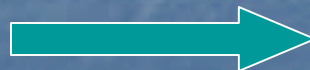
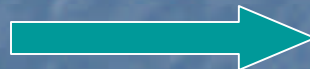
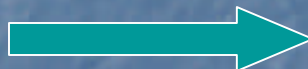
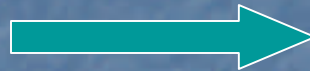
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Governor's Expenditure Strategy

Structural Budget Solutions

- **Expenditures/
Strategies**

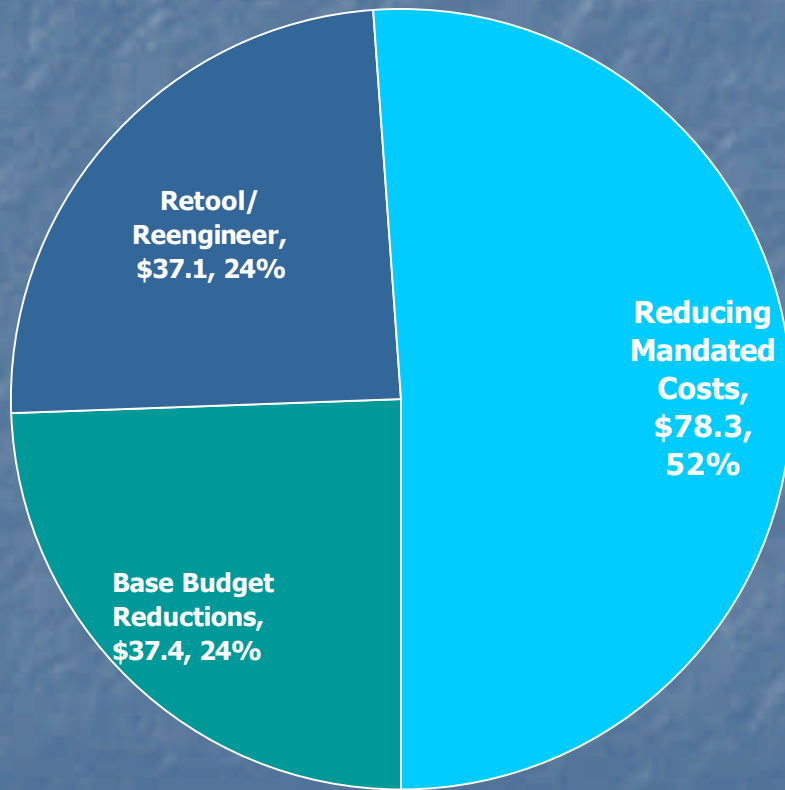
- **Eliminate & reduce programs /positions/ discretionary funds.**
- **Re-tool existing government programs for greater efficiency/ effectiveness**
- **Control growth in of state mandated costs**



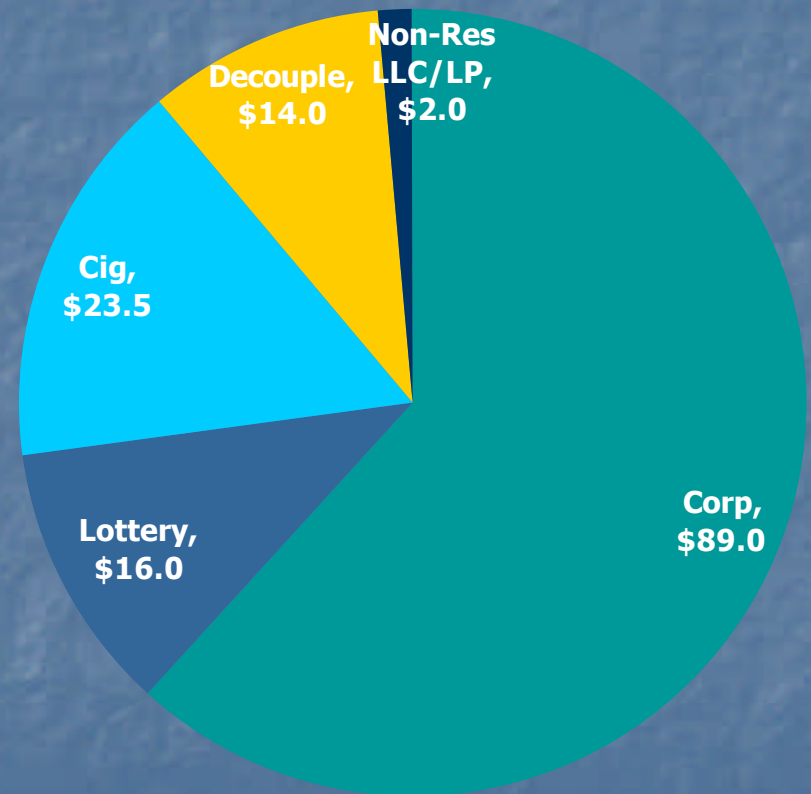
Governor's Goal

- **At least 1/2 of \$300 million solution to come through cuts to projected expenditures**

Governor Recommends a Balanced Solution to Approx. \$300M Shortfall



Aggressive Cost Containment
\$152.8 million



Balanced Revenue Package
\$144.5 million

Governor's Recommended Financial Package Fiscal Year 2004

- **General Fund Operating Budget \$2,432.7 M**
 - GF Operating Budget Growth 1.69%
 - Lowest Budget Growth % since FY 1992
- **Grants-In-Aid \$35.5 M**
- **Bond and Capital Improvements Act \$392.4 M**
 - State Capital Projects \$134.0 M
 - G.O. Bonds & Interest \$ 123.8 M
 - Cash, Other \$ 10.2 M
 - Transportation Projects \$258.3 M

Governor's Fiscal Year 2004 Recommended Budget Highlights

■ Base Budget Cuts

- Reduce size of State Workforce – Goal 400+ positions (\$6,000.0)
- Carryover FY 2003 Reductions into FY 2004 (\$15,338.1)
- Public Ed Discretionary Allocation funding (\$10,000.0)
- Close Governor Bacon Health Center (\$2,445.4)

■ Retool and Re-engineer Programs

- Department of Safety and Homeland Security
- Reorganized Department of Transportation
- Integrate DCET to DTI
- Insurance Coverage Office to Budget Office
- Boiler Safety to DNREC
- Paramedic Cost Shift (\$3,300.0)
- School MCI's to Bond Bill (\$6,998.8)
- Health Care Costs to Tobacco Fund (\$2,232.5)

Governor's Fiscal Year 2004 Recommended Budget Highlights

- Drive Down Mandated Costs
 - FY 2003 Cost Containment Strategies (\$7,500.0)
 - Medicaid Growth
 - Employee Health Costs
 - Employee Pension Costs
 - P2 Project

Governor's Fiscal Year 2004 Recommended Budget Highlights

- Improving our Schools
 - Public Ed Construction \$77.6 million
 - Unit Growth \$6.6 million
 - Public Ed and DTCC Steps \$5.1 million
 - Educator Accountability \$2.0 million
 - Pupil Transportation \$1.6 million
 - Unique Alternatives \$1.1 million
- Making Families Healthy, Safe and Self-Sufficient
 - Medicaid \$18.5 million
 - TANF \$760.4
 - DDS Community Placements \$960.3
 - Foster Care rates \$390.1

Governor's Fiscal Year 2004 Recommended Budget Highlights

- Protecting our Environment
 - Conservation Cost-Share \$2.3 million
 - Clean Water Revolving Fund \$1.3 million
 - Dams/Water Control Structures \$1.0 million
 - Beach Preservation \$1.0 million
- Attracting and Retaining Quality Jobs
 - Strategic Fund \$10.0 million
 - Riverfront Development Corporation \$1.5 million
 - Crop Insurance \$600.0

Governor's Fiscal Year 2004 Recommended Budget Highlights

- Managing State Government Well
 - GF Operating Budget Growth 1.69%, lowest budget growth since FY 1992
 - Appropriations are within constitutionally mandated limit of 98% of available revenues
 - Adjusted Operating budget growth (-1.0%) adjusting for costs of Medicaid, Pension, Health Insurance, Debt Service, School Unit Count and Prison population growth

Solving the Structural Deficit

- Other States
 - Exhausted Rainy Day Funds
 - Raided Tobacco Funds for non-health care costs
 - Securitized Tobacco Funds
 - Banked on other surpluses
- Governor Minner's Plan
 - Appropriates 98% of Revenue
 - Does not raid Rainy Day Fund
 - Only use Tobacco Funds for health care related purposes
 - Aligns ongoing expenditures with ongoing revenues
 - Applies cash to bond bill projects

Preserving Health Benefits

■ Other States

- California – Eliminates 300,000 Medicaid recipients
- Tennessee – Eliminates 250,000 Medicaid recipients
- Oklahoma – Eliminate 80,000 Medicaid recipients

■ Governor Minner's Plan

- Preserves benefits for most vulnerable including children, elderly and disabled.
- No Delawarean will lose Medicaid coverage or benefits

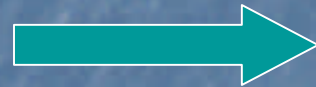
Governor Minner's Plan is Responsible

- Other States
 - Closed Motor Vehicle Facilities (VA)
 - Closed parks
 - Released prison inmates early (KY)
 - Closed museums
 - Proposed selling State office buildings (AZ)
 - Implemented 4 day week for Public Schools (CO)
- Governor Minner's Plan
 - Preserves essential State Services
 - Fully funds spending obligations
 - Makes critical investments in economic development and state infrastructure
 - Creates the Department of Safety and Homeland Security

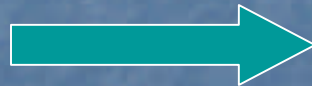
Managing Without Resorting to Drastic Measures

- Other States
 - Virginia has announced 1,800 layoffs
 - Layoffs contemplated in several other states including New Jersey
- Governor Minner's Plan
 - State Government operates under hiring freeze....Governor Minner does not resort to layoffs
 - Goal is to reduce State workforce by 400 + jobs, over 3.0% reduction from FY 2003

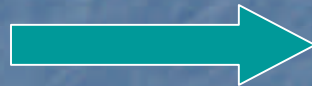
Impact of Layoffs to Delaware



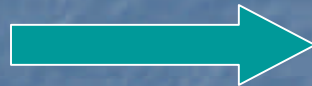
- Unemployment Insurance Benefits



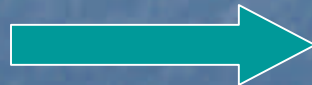
- Medicaid



- TANF



- Food Stamps



- Loss of Tax Revenue

Delaware Recognized as Financially Sound

■ Other States

- 5 States bond rating downgraded by Moody's
- 12 States outlook downgraded by Standard and Poors

■ Governor Minner's Plan

- Delaware bond rating of AAA, the highest given, is reaffirmed by all three bond rating agencies
- Delaware January bond sale @ 3.73%....one of the lowest rates in the state's history

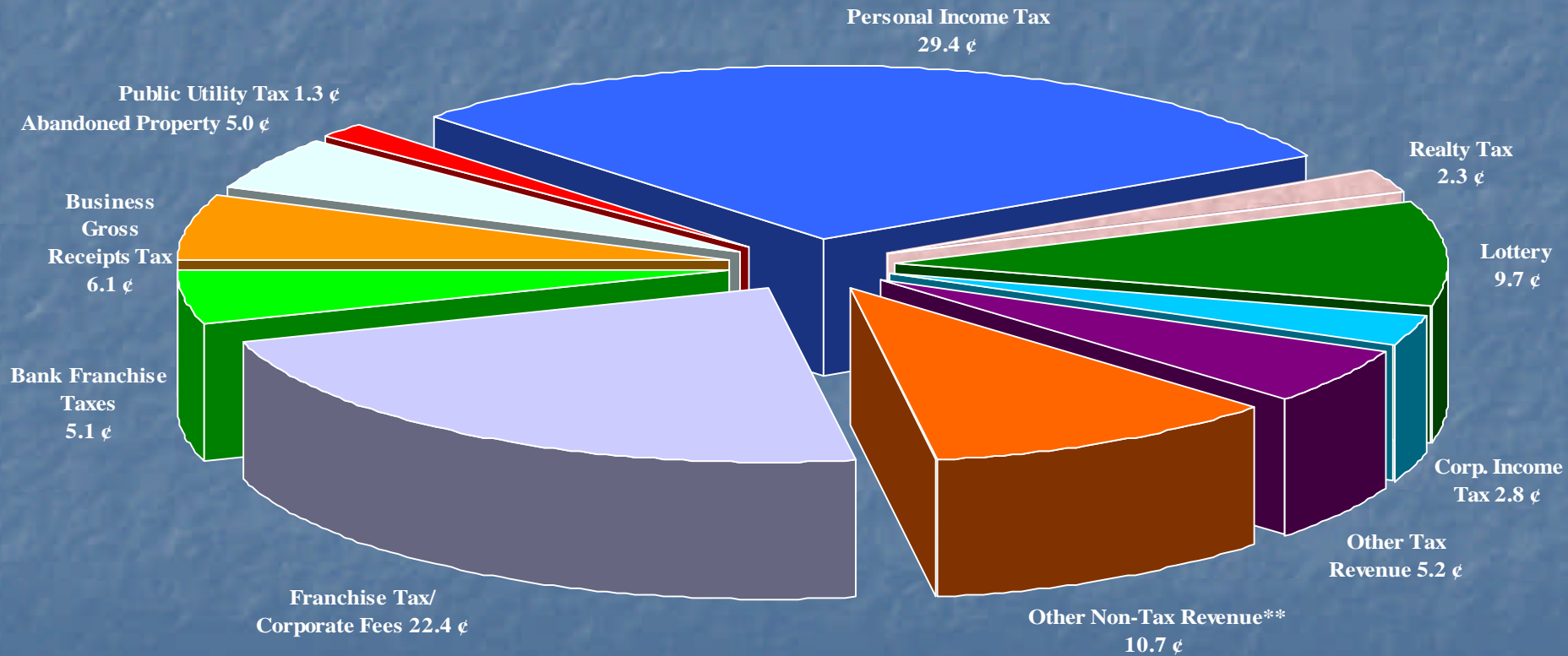
DEFAC General Fund Revenue

Fiscal Years 2003 – 2004
(as of January 27 , 2003 DEFAC)

<u>Revenue Categories</u>	<u>Forecast FY 2003</u>	<u>Forecast FY 2004</u>
Personal Income Taxes	\$827.0	\$868.8
Corporation Income Taxes	97.0	105.6
Franchise Taxes	434.5	447.5
Gross Receipts Taxes	145.0	152.9
Hospital Board and Treatment Sales	83.0	85.0
Dividends and Interest	18.0	18.6
Public Utility Taxes	32.0	33.2
Cigarette Taxes	35.0	36.8
Estate Taxes	21.9	16.7
Realty Transfer Taxes	58.5	58.5
Insurance Taxes	60.5	63.5
Abandoned Property	191.0	116.0
Corporate Fees	37.7	39.5
Bank Franchise Taxes	121.0	127.0
Lottery Sales	221.7	227.6
Limited Partnerships & LLC	24.6	28.3
Uniform Commercial Code	13.3	10.8
Other Revenue	<u>129.5</u>	<u>94.6</u>
Total Receipts	\$2,551.2	\$2,530.9
LESS: Revenue Refunds	<u>(224.1)</u>	<u>(209.3)</u>
TOTAL	\$2,327.1	\$2,321.6

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Governor's Recommended Operating Budget Fiscal Year 2004 Revenue Dollar Sources of Funds*



* Net of Refunds

** Includes Prior Year Unencumbered Cash

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Governor's Revenue Proposals

- Taxes decreased frequently since 1980
 - Personal income tax cut 9 times
 - Gross receipts tax cut 4 times
 - Gift and inheritance tax eliminated
- Revenue increases needed periodically – 1977, 1984, 1991
- Governor's Proposal includes the following:
 - Cigarettes
 - Video lottery
 - Corporate franchise
 - Federal decoupling

Cigarettes

- **Current rate, since 1991, is 24¢/pack**
- **Surrounding states are all \$1/pack or more; 35 states are higher than Delaware**
- **Higher rate may also help discourage smoking, especially by young people**
- **Governor's Proposal is to increase tax to 50¢/pack**
- **Governor's Proposal generates \$23.5 million for FY 2004**

Video Lottery

- **Delaware's 3 "racinos" have attracted far more play – and earnings – than originally expected**
- **Strong likelihood of imminent competition from Maryland and Pennsylvania**
- **Governor's proposal will increase competitiveness of Delaware tracks by adding extra hours of play, more machines and new marketing tools**
- **Governor's proposal also gives the state a bigger share of net revenue**
- **Governor's Proposal will generate \$16.0 million annually; an 8% increase**

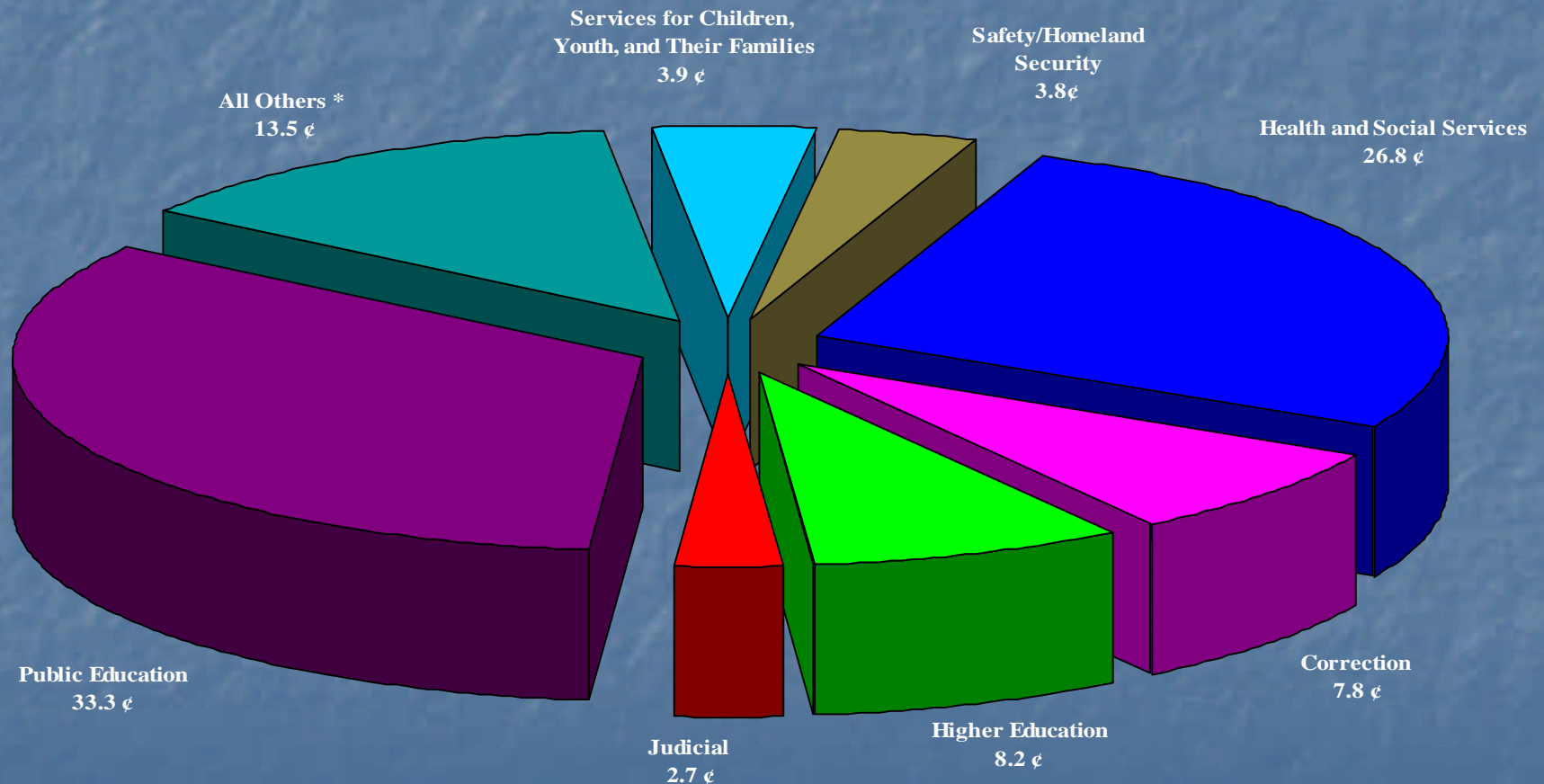
Corporate Franchise

- **Includes taxes and fees paid by 550,000 entities for the privilege of basing their businesses in Delaware**
- **Entities drawn to Delaware by prestige, top notch service, favorable legal code, court system**
- **Rates have been increased periodically, most recently in 1969, 1984 and 1991 -- increased by 43% in 1991**
- **Inflation is up 33% since last increase**
- **Governor's Proposal is to increase taxes and fees by 17%**
- **Governor's Proposal will generate \$89.0 million in FY 2004**

Federal Decoupling

- **Piggybacking state taxes on federal tax calculations is preferable -- saves taxpayers time and money**
- **But coupling also exposes states to unplanned and unaffordable revenue reductions**
- **2001 and 2002 federal tax changes will result in \$36 million reduction in our revenues for FY'04**
- **Preliminary assessment of the economic stimulus package proposed by President indicates significant additional revenue loss**
- **32 states have decoupled to varying degrees from federal tax code to avoid such losses**
- **Governor's Proposal is to selectively decouple, starting with the estate tax**
- **Governor's Proposal will generate \$14.0 million in FY 2004**

Governor's Recommended Operating Budget Fiscal Year 2004 Budget Dollar General Fund Appropriations



* Includes One-Time Items

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Operating Budget Appropriations

Fiscal Years 2004

	FY 2004	% change **
Legislative	\$ 12,051.2	-0.34%
Judicial	66,619.9	-0.86%
Executive	75,372.4	*
Technology and Information	29,755.9	*
Other Elective Offices	50,971.4	79.29%
Legal	28,635.2	-2.36%
State	14,559.4	-2.00%
Finance	17,200.4	5.42%
Administrative Services	41,292.0	3.62%
Health and Social Services	651,312.8	1.91%
Children, Youth & Their Families	93,753.8	-1.11%
Correction	189,312.9	-0.78%
DNREC	35,567.0	-6.98%
Safety and Homeland Security	91,965.6	-6.65%
Labor	6,160.2	0.50%
Agriculture	6,667.0	-1.44%
Elections	3,308.3	-0.22%
Fire Prevention Commission	3,858.6	-3.21%
Delaware National Guard	3,584.6	1.01%
Exceptional Citizens	113.7	-2.64%
Higher Education	200,057.8	-2.29%
Public Education	810,617.2	1.97%
Statewide Total	\$ 2,432,737.3	1.69%

* Reflects movement of Department of Technology and Information.

**Adjusted for FY 2003 Personnel Contingency.

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Governor's Recommended Capital Budget Highlights Fiscal Year 2004

Improving Education

Public Libraries	\$ 1,709,900
University of Delaware	3,500,000
Delaware State University	3,500,000
Delaware Technical and Community College	3,500,000
Public Education - Construction/Renovation	77,600,800

Protecting Delaware's Environment

Conservation Cost Share Program	2,345,000
Beach Preservation	1,000,000
Clean Water Revolving Fund	1,300,000
Dams/Water Control Structures	1,000,000

Economic Development and Job Creation

Delaware Strategic Fund	10,000,000
Riverfront Development Corporation	1,500,000

Investments in State Infrastructure

Department of Transportation	258,342,600
Technology Fund	8,598,900
Georgetown Motor Vehicles Facility	6,600,000
Kent County Courthouse Facilities	3,337,100
Maintaining State Facilities	6,711,200

End of Presentation

Questions?